Introduction

After the January Colorado Economic Recovery and Accountability Board meeting, a request was sent to state agencies in receipt of ARRA funds to submit new and existing risk management plans to the Governor's Office. Those respective agencies have submitted information as to how they monitor and address risks associated with the implementation of the programs. As expected, the state agencies have enacted new policies and procedures that serve to minimize risk and in some cases, have created additional layers of scrutiny.

It is important to remember that ARRA funds had to be obligated under very strict timelines and also that the Recovery Act provided no additional funding for state administrative oversight. The fact that these funds had to be spent faster and with more transparency than any other federal program presented unique challenges for Colorado's State agencies.

Most ARRA funds went to existing programs, infusing agencies with additional amounts of funding. This funding mechanism benefited the agencies and helped to alleviate the potential for risk. State agencies were able to leverage and expand on these preexisting programs. In addition to existing protocols, most agencies have implemented additional measures, one of the most important and useful being 1512 Reporting. Federal law requires these reports be submitted by the prime recipient on a quarterly basis and are available not only for state governments to view, but the public as well. This reporting is cumulative and consequently, the fund-use descriptions are reviewed each quarter. If it is determined that there are questions about uses of funds or that the spending is not appropriate, that feedback will be provided to the sub recipient along with a request for a plan of correction.

Given to the federal reporting requirement, years of internal control formation, state audits and rulemaking have all worked to minimize the potential for risk. The agencies are well aware of risks associated with handling federal dollars and have put those years of experience in place to help mitigate the possibility for waste, fraud or abuse with Recovery funds.

Below is a list of risk areas and a brief explanation of how existing or new practices will work to help state agencies mitigate and manage risk.

General Issues

• Lack of resources/experienced personnel -. Most states have scaled back personnel levels and Colorado is no exception. There is an identified ARRA lead at every agency receiving Recovery funds. For some grants, agencies were able to hire additional staff. Specifically, the Governor's Energy Office (GEO) will be hiring several new staff; two of which will include a weatherization director and a local programs manager. The GEO received the largest increase in program funding and the additional staff will help to reduce risk areas. The GEO is a relatively nascent agency in a developing market, and while these new hires will help to successfully implement and carry out the programs, other agencies unable to bring on new hires will be forced to fall back on their existing protocols and monitoring procedures.

- **ARRA funding not a recurring source of funding -** When ARRA dollars have been exhausted, additional hires will likely not be sustainable.
- **Matching provisions** A variety of federal programs require matches from the awardee. Those respective agencies are aware of these requirements and have budgeted accordingly. No awards will be returned because of an inability to provide a match.

Accountability/Transparency

- **Recovery.gov** Reporting requirements for ARRA funding has been prescribed by the Office of the State Controller (OSC). Agency personnel have attended numerous meetings regarding reporting requirements, and we are coordinating with staff to maintain full disclosure of all required items within the process developed by the OSC.
- Oversight The agencies receiving ARRA funds have significant experience in administering federal grants, and these agencies will continue to work closely with the Office of the State Controller to communicate all differences in ARRA funding to the Divisions, and monitor correct accounting and reporting requirements. The OSC has provided ARRA specific procurement guidance for state agencies to follow.

Procurement/Contracting

- Conflict between federal and state laws As with the accountability issues, agencies will work
 closely with the OSC on communicating procurement and contracting issues that differ from
 normal state processes with ARRA funds to ensure that correct processes are followed.
 Significant meetings and correspondence with the OSC have occurred. The OSC has provided
 ARRA specific procurement guidance for state agencies to follow.
- **Contract Review** This process has not changed with contracts funded with ARRA money. In fact, additional monitoring is necessary to ensure all reporting requirements are met.
 - Contract Scope/Milestones
 - Project Budgets
 - Change Orders
 - Monitoring
 - Nonperformance

All of the above defined items are currently required on all contracts, and input into the statewide contract management database. No exceptions for ARRA funds are made, and additional information on ARRA funded projects is maintained in the contract management database for reporting purposes. Agencies are utilizing a reimbursement payment plan for subgrantees, allowing agencies to monitor and mitigate issues before requests for payment. Agencies also monitor programs in the form of achieving milestones. These milestones are set in contracts and require that certain goals be met. In the past, agencies have required contractors to correct projects that do not pass inspection. CDPHE requires contractors to submit updates on compliance with Davis Bacon wage rates, jobs created and retained and any change orders on the projects prior to approval of a payment.

Financial Management

- Disbursement of funds —Normal internal control procedures are maintained with ARRA funds, and all other funding sources. State fiscal rules, as well as Department and Division policies are followed.
- Appropriateness of expenditures Verification of this item is a current process with any expenditure of funds. Project managers and Department personnel are responsible to ensure that expenditures made are within the terms and conditions of the grant, ARRA funded or not.
- **Allowable costs** Project managers and agency personnel are responsible to ensure that all costs are allowable, as with any grant funds. Agencies will use existing procedures to check on the appropriateness for the use of funds.
- **Separate accounting** ARRA funds are accounted for in separate funds, as directed by the OSC, in accordance with federal guidelines.
- Cash Management Improvement Act (CMIA) All provisions of the CMIA are followed per the grant guidelines. To avoid the accumulation of interest, funds will not be transferred until payment has been requested.
- Custodial risks/collateralization Nearly all ARRA funds are on a reimbursement basis. For any
 funds received in advance, funds would be deposited with the State Treasury, and applicable
 state law would be followed regarding collateralization of assets within the banking institution
 for public funds.
- **Sub-recipient education/notification/monitoring** —If ARRA grants are awarded to a sub-recipient, the agency will control the award in the same manner as non ARRA funds, informing the grantee of ARRA specific requirements, and continue to report on all ARRA funds, as directed by the OSC.

Conclusion

State Agencies continue to utilize existing policies and procedures to help manage the potential for risk. While there will always be potential for waste, fraud or abuse, years of institutional knowledge, state law and federal requirements will work in concert to achieve the goals of the program and make certain the money is spent to lead Colorado to economic recovery.

State Agencies will be asked to present their approach to risk management to the Board in the future. If the Board identifies any gaps where risk may occur, the Governor's Office will continue to work with the Board and the agencies to address those concerns and correct that issue.